ADB „GJENSIDIGE“

Interim Financial Statements
for the period ended 31 March 2017

CONTENTS

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

ASSETS	Note	2017-03-31	2016-12-31
Property and equipment	1	3 135 513	2 456 579
Intangible assets	1	4 521 079	4 396 711
Total non-financial assets		**7 656 592**	**6 853 290**
Financial assets designated at fair value through profit or loss	2	57 514 407	58 567 507
Held-to-maturity investments	3	36 904 466	40 606 881
Total financial investments		**94 418 873**	**99 174 388**
Term deposits with credit institutions	4	6 178 745	15 185 277
Direct insurance receivables from policy holders and intermediaries	5	19 009 889	17 615 336
Reinsurance receivables	5	183 739	163 428
Other receivables	5	1 530 823	1 633 883
Loans and Receivables		**26 903 196**	**34 597 924**
Deferred client acquisition costs		8 249 181	8 386 907
Other prepaid expenses and accrued income		3 572 272	3 286 004
Total accrued income and deferred expenses		**11 821 453**	**11 672 911**
Deferred tax asset		1 313 733	1 313 733
Corporate income tax asset		583 615	583 615
Advance payments		128 894	218 640
Reinsurer's share in technical reserves for unearned premium		2 356 609	511 412
Reinsurer's share in technical reserves for outstanding claims		10 620 581	10 309 150
Total reinsurance assets	8	**12 977 190**	**10 820 562**
Cash and cash equivalents	6	**21 963 074**	**11 392 337**
TOTAL ASSETS		**177 766 620**	**176 627 400**

Marius Jundulas	Jolanta Motukaitė	Jurgis Navikas
General Manager	Chief Accountant	Chief Actuary

25 April 2017

Gjensidige ADB
COMPANY CODE 110057869, ZALGIRIO STR. 90, VILNIUS
STATEMENT OF FINANCIAL POSITION
(All amounts are in EUR, unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

LIABILITIES AND EQUITY	Note	2017-03-31	2016-12-31
Equity			
Share capital	7	47 184 339	47 184 339
Share premium	7	12 453 661	12 453 661
Reserve of revaluation		67.462	68 947
Retained earnings carried forward from previous years		(16 559 757)	(1 988 172)
Profit (loss) of the reporting period		(933 309)	(14 573 070)
Total equity		**42 212 396**	**43 145 705**
Financing (Grants and Subsidies)		**-**	**-**
Liabilities			
Insurance liabilities			
Unearned premium technical reserve		53 438 849	52 502 928
Technical reserves for outstanding claims		58 506 972	57 525 351
Unexpired risk technical reserve		4 720 249	5 347 115
Total insurance liabilities	8	**116 666 070**	**115 375 394**
Creditors			
Direct insurance liabilities			
Policy holders		1 951 353	1 934 683
Intermediaries		496 621	512 427
Other liabilities		5 830 697	5 273 846
Reinsurance liabilities		1 274 202	499 243
Corporate income tax liabilities		-	-
Taxes and social contributions		771 145	641 021
Other creditors		1 171 145	1 141 435
Total creditors	9	**11 495 163**	**10 002 655**
Provisions		**1 016 512**	**1 643 055**
Accrued expenses and deferred income		**6 376 479**	**6 460 591**
Total liabilities		**135 554 224**	**133 481 695**
TOTAL LIABILITIES AND EQUITY		**177 766 620**	**176 627 400**

Marius Jundulas	Jolanta Motukaitė	Jurgis Navikas
General Manager	Chief Accountant	Chief Actuary

25 April 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	2017	2016
Earned premiums		**28 388 709**	**11 961 836**
Gross written premiums	10	30 174 203	12 195 638
Reinsurer's share in written premiums		(2 694 769)	(1 925 846)
Changes in gross unearned premium technical reserves		(935 921)	561 724
Change in the unearned premium technical reserves, reinsurer's share		1 845 196	1 130 320
Claims incurred, net		**(20 826 622)**	**(7 907 484)**
Claims paid		(19 183 938)	(8 881 367)
Claims handling expenses		(2 474 641)	(677 375)
Recovered losses		1 453 055	662 651
Reinsurer's share in claims paid		49 093	458 319
Change in claim technical reserves		(981 622)	1 657 800
Change in claim technical reserves, reinsurer's share		311 431	(1 127 512)
Change in unexpired risk technical reserves		626 867	346 622
Net operating expenses			
Client acquisition costs		(7 099 049)	(3 466 925)
Change in deferred client acquisition costs		(137 725)	(45 653)
Administrative expenses		(2 758 731)	(1 510 360)
Reinsurance commission income and profit share		229 183	34 140
Investment management expenses		(38 981)	(16 940)
Net interest income		538 445	419 806
Net gain/losses from financial assets classified at fair value through profit and loss		43 914	(133 641)
Realised investment result from investment activity		(132 498)	(520 258)
Income of real estate			2 629
Foreign exchange revaluation loss		(7 611)	(40 605)
Other income		326 960	104 414
Other expenses		(86 170)	(14 210)
Profit before corporate income tax		**(933 309)**	**(786 629)**
Corporate income tax			
Change in deferred income tax			
Profit/(loss) of the reporting year		**(933 309)**	**(786 629)**
Other comprehensive income for the year			
Total comprehensive income for the year		**(933 309)**	**(786 629)**

Marius Jundulas	Jolanta Motukaitė	Jurgis Navikas
General Manager	Chief Accountant	Chief Actuary

25 April 2017
.

Gjensidige ADB
COMPANY CODE 110057869, ZALGIRIO STR. 90, VILNIUS
STATEMENT OF CHANGES IN EQUITY
(All amounts are in EUR, unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Share capital	Share premium	Property revaluation reserve	Retained earnings	Total
Balance as at 31 December 2015	13 001 174	12 453 661	74 885	(5 124 229)	20 405 491
Comprehensive income for the year	-	-	-	(786 629)	(786.629)
Amortization of revaluation assets	-	-	(1 485)	1 485	-
Balance as at 31 March 2016	**13 001 174**	**12 453 661**	**73 400**	**(5 909 373)**	**19 618 862**
Business combination (Note 14)	-	-	-	3 130 119	3 130 119
Comprehensive income for the year	-	-	-	(13 786 441)	(13 786 441)
Amortization of revaluation assets	-	-	(4 453)	4 453	-
Share capital increase (Note 7)	34 183 165	-	-	-	34 183 165
Balance as at 31 December 2016	**47 184 339**	**12 453 661**	**68 947**	**(16 561 242)**	**43 145 705**
Comprehensive income for the year				(933 309)	(933 309)
Amortization of revaluation assets			(1 485)	1 485	
Balance as at 31 March 2017	**47 184 339**	**12 453 661**	**67 462**	**(17 493 066)**	**42 212 396**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

25 April 2017

Gjensidige ADB
COMPANY CODE 110057869, ZALGIRIO STR. 90, VILNIUS
STATEMENT OF CASH FLOWS
(All amounts are in EUR, unless otherwise stated)

STATEMENT OF CASH FLOWS

For the periods, ended 31 March 2017 and 31 March 2016

	Note	2017	2016
Cash flows from operating activities			
Premiums received in direct insurance		28 353 659	11 979 925
Claims paid in direct insurance		(18 124 180)	(8 030 468)
Payments received from reinsurers		-	-
Payments made to reinsurers		(1 646 215)	(1 137 156)
Profits tax		-	-
Payments to employees		(2 686 659)	(1 148 715)
Payments to intermediaries		(2 994 748)	(1 763 532)
Operating taxes payment		(2 390 119)	(1 301 340)
Other payments made		(4 973 938)	(3 258 345)
Other payments received		861 416	1 383 742
Net cash flows used in operating activities		**(3 600 784)**	**(3 275 889)**
Cash flows from investing activities			
Acquisition of investments:			
Debt securities and other fixed income securities		(4 719 068)	(16 790 254)
Term deposits with credit institutions		-	-
Total acquisition of investments:		**(4 719 068)**	**(16 790 254)**
Disposal of investments:			
Debt securities and other fixed income securities		9 918 285	16 988 173
Term deposits with credit institutions		9 000 000	1 600 000
Total disposal of investments:		**18 918 285**	**18 588 173**
Investment income:			
Debt securities and other fixed income securities		-	-
Term deposits with credit institutions		11 285	14 101
Total investment income:		**11 285**	**14 101**
Investment management expenses and commission fee payments		(38 981)	(16 940)
Net cash flows from/ (used in) investing activities		**14 171 521**	**1 795 080**
Financing activities			
Tax paid on financial activities		-	(53 312)
Net cash from (used in) financing activities		**-**	**(53 312)**
Net increase/(decrease) of cash and cash equivalents		**10 570 737**	**(1 534 121)**
Impact of currency exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		**11 392 337**	**3 288 536**
Cash and cash equivalents at the end of the year		**21 963 074**	**1 754 415**

Marius Jundulas	Jolanta Motukaitė	Jurgis Navikas
General Manager	Chief Accountant	Chief Actuary

25 April 2017

I. GENERAL INFORMATION

General information

Gjensidige ADB (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 2 November 2004. The registration number of the certificate of the Company is 019084.

On 1 March 2016, the name of DK PZU Lietuva UAB was changed to ADB Gjensidige.

The Company is engaged in non-life insurance services. The licence for the insurance activity is No. 000021.

As of 31 March 2017, the Company's authorised share capital consisted of 6 402 217 ordinary registered shares with the par value of EUR 7.37 each and as of 31 March 2016 the share capital of the Company consisted of 1 764 067 ordinary registered shares with the par value of EUR 7.37 each.

99.97% of the Company's share capital is owned by Gjensidige Forsikring ASA, identification number (code) 995568217, registered address Schweigaards gate 21, 0191 Oslo, 0301 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and Shareholder), and 0.03% to a minority shareholder, an individual.

Shareholder	Number of shares, pcs.
ASA „Gjensidige Forsikring“	6 400 091
Individual	2 126
Total	**6 402 217**

As of 31 March 2017, Gjensidige Forsikring ASA group in the Baltics owned the following companies:

- Gjensidige ADB with branches in Latvia and Estonia.

The head office of Gjensidige in the Baltic States is in Lithuania.

Employees of the Company

As of 31 March 2017, the Company employed 1 002 employees(as of 31 March 2016 – 623):

Country	31/03/2017	31/03/2016
Lithuania	740	623
Latvia	218	-
Estonia	44	-
Total	**1 002**	**623**

Company's activities

The Company has the license for the following groups of insurance or activities of voluntary insurance of separate risks:

- Land vehicles other than railway transport insurance;
- Land vehicles third party liability insurance;
- Aircraft third party liability insurance;
- Hull (sea and internal waters) third party liability insurance;
- Accident insurance;
- Aircraft insurance;
- CARGO insurance;
- Property insurance against other risks;
- General third party liability insurance;
- Illness insurance;
- Hull (sea and internal waters) insurance;

- Property insurance against fire and natural disasters;
- Guarantee insurance;
- Financial losses insurance;
- Assistance insurance;
- Railway rolling stock transport insurance.

The Company's license for the insurance activity enables to provide such types of obligatory insurance:

- Compulsory motor third party liability insurance;
- Compulsory liability insurance of construction projector;
- Compulsory liability insurance of contractor;
- Compulsory liability insurance of major researchers and contractors of biomedical researches;
- Compulsory liability insurance of railway companies (carriers) and companies using public railway infrastructure;
- Compulsory liability insurance of healthcare agencies for the harm inflicted on patients;
- Professional liability insurance of bankruptcy administrator in performing company bankruptcy procedures;
- Insurance of guarantee of performance of travel organiser's liabilities.

Information about branches and agencies of the Company
As of 31 March 2017, the Company had 2 foreign branches – in Latvia (12 representative offices), in Estonia, 3 regions and 20 sales units in Lithuania (as of 31 March 2016 – 2 foreign branches, 3 regions and 20 sales units). The head office of the Company is located at Zalgirio str. 90, Vilnius.

Information about subsidiaries and associated companies of the Company
As of 31 March 2017 and 2016, the Company had no subsidiaries and associated companies.

Financial year
The financial year of the Company starts on 1 January and ends on 31 December.

II. SIGNIFICANT ACCOUNTING POLICIES

Basis for preparation of financial statements

Statement of compliance
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 "Interim financial Reporting", as adopted by the EU, and legal regulations on accounting and financial reporting of the Republic of Lithuania. The financial statements have been prepared on the historical cost basis except the following items which are carried at fair value: financial assets carried at fair value through profit or loss and buildings which are measured at revalued amount, being fair value at date of valuation less subsequent accumulated amortization value.
The interim report does not include all the information required in a complete annual report and should be read in conjunction with the annual report for 2016.

Functional and Presentation Currency

The financial statements are presented in Euro (EUR), which is the Company's functional currency. These financial statements have been prepared in Euro (EUR), which is the Company's functional currency.

New standards and interpretations, reclassification of balances in the financial statements

Standards and interpretations effective in the reporting period and changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

(i) *IFRS 14 Regulatory Deferral Accounts;*

(ii) *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);*

(iii) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);

(iv) Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);

(v) Equity Method in Separate Financial Statements (Amendments to IAS 27);

(vi) Annual Improvements to IFRSs 2012-2017 Cycle – various standards;

(vii) Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);

(viii) Disclosure Initiative (Amendments to IAS 1).

New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements.

(i) IFRS 9 Financial Instruments (2014) *(Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted).*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity’s risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Entity’s financial instruments are expected to change.

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 standard until 1 January 2021 The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the separate financial statements of the Company.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

(iii) Amendments to IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements of the Company. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in their statements of financial position assets and liabilities relating to operating leases for which the Company act as lessee.

The Company has operating lease agreements for cars and premises lease agreements. The Company has not yet prepared an analysis of the expected quantitative impact of the new Standard.

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not enter into share-based payment transactions.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company.

(ix) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the financial statements.

(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a material impact on the financial statements of the Company.

Basis of measurement

The financial statements have been prepared on the historical cost basis except the following items which are carried at fair value: financial assets carried at fair value through profit or loss and buildings which are measured at revalued amount, being fair value at date of valuation less subsequent accumulated amortization value.

Significant accounting policies

Estimates

Based on the International Financial Reporting Standards EU, the management, when preparing the financial statements, has to make certain estimates and assumptions that affect the disclosure of assets, liabilities, income, expenses and contingencies.

Estimates and key assumptions are reviewed on an ongoing basis and the effects of revisions are recognized in the period in which revised if the revision itself only affects that period, or also in the future periods if the revision affects both the current and future periods.

The estimates relate mainly to the definition of the useful lives of tangible and intangible assets, impairment of doubtful insurance debts and investments, technical provisions, receivable subrogations and recoveries and recognition of deferred tax asset:

- Insurance liabilities – Note II Insurance risk management (iv),
- Reinsurance share in technical reserves – Note II Reinsurance contracts,
- Impairment of financial instruments – Note II Impairment,
- Impairment of intangible assets – Note II Intangible assets,
- Allowance for overdue debtors – Note II Classification of insurance contracts (ii), Note 6
  Deferred tax asset – Note II Defered tax asset, Note 21

The result of changes in the mentioned estimates will be accounted for in the financial statements when determined.

Foreign currency

Foreign exchange transactions are translated into the functional currency of the country of operation in accordance with the exchange rate set by the European Central Bank on the date of the respective transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the European Central Bank on the last date of the reporting period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated at the exchange rate as at the date fair value was determined. Non-monetary items that measured in terms of historical cost or revalued amount in foreign currency are translated using the exchange rate at the date of transaction or the date of revaluation.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the statement of comprehensive income in the period in which the fluctuation occurs. Foreign exchange rates for the key currencies at the end of the reporting period were the following:

	31/03/2017	**31/03/2016**
PLN	4,2265	4,2576
USD	1,0691	1,1385

Intangible assets
Intangible assets comprise software, goodwill and other intangible assets acquired in business combination. Intangible assets are carried at acquisition cost, less accumulated amortisation and impairment losses, if any. Amortisation is calculated on a straight-line basis over the estimated useful life of the asset.

The amortisation rates of intangible assets are the following:

Intangible asset group	**Useful life (in years)**
Software	3–8
Other assets	5

Business acquisitions
Business acquisitions are accounted for using the purchase method. Paid amount in a business combination process is measured at fair value.

Goodwill
Goodwill arising in a business acquisition process is accounted for at cost determined at business acquisition date less accumulated impairment losses, if any. Goodwill is recognised after acquisition of subsidiaries/branches at the amount by which the price paid exceeds the fair value of the net assets attributable to the Company.
Goodwill acquired in a business combination is not amortised, but is tested for impairment an-nually or more frequently, when indications of impairment losses exist.
Goodwill is tested for impairment annually. The annual testing of goodwill is performed in the third quarter.

Business combinations between companies under common control
Business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. The assets and liabilities of the acquiree are recognised at their previous carrying amounts. No adjustments are made to reflect fair values and no new assets and liabilities of the acquiree are recognised at the date of the business combination. No new goodwill is recognised and the difference between the acquired net assets and the consideration is recognised directly in equity.
Property and equipment

a) Property

Property are carried at revalued value less any subsequent accumulated depreciation and accumulated impairment losses, if any.

In case real estate comprises important components with different useful lives, they are carried as separate units of real estate.

In cases where the value of a revaluated asset unit increases, such an increase is accounted for as the asset value increase and revaluation reserve. When the asset unit value after revaluation decreases, such a decrease is registered as an impairment loss and is recognized as an accounting period loss due to asset impairment loss, if the asset was not revaluated previously by increasing its value. In cases where the value of an asset being revaluated was increased and the asset impairment loss is identified during the accounting period, at first the remaining non-depreciated revaluation reserve is written off, and where its balance is not sufficient – the asset impairment loss expenses are registered. In cases where the value of any previously revaluated asset increases, the previous impairment loss is reversed, and the remaining portion goes to the revaluation reserve. At the end of the accounting period, the building's revaluated portion depreciation is calculated, and the revaluation reserve is adjusted accordingly. Upon the sale or write-off of any revaluated asset, the respective non-depreciated balance of the revaluation reserve is reversed.

Depreciation is calculated on a straight-line basis over the estimated useful life of buildings. The estimated useful life of buildings is 15 to 60 years.

Subsequent repair works, which do not improve the useful features of the assets or do not extend the assets useful life period, are recognized as expenses immediately when incurred. Reconstruction costs and repair works, which extend the asset useful life period or which increase the useful features are included in the cost of the asset and are depreciated over the newly determined useful life.

Gain or loss arising on the disposal of real estate is determined as the difference between the proceeds received and the carrying amount of the sold property as well as all disposal related costs. Upon the disposal of real estate, the transaction result is reflected in profit or loss.

At the end of every year, the Company reviews the estimated useful life, carrying amount and depreciation method of its real estate and the changes in accounting estimates, if any, are recognized on a prospective basis.

b) Plant and equipment (hereinafter referred to as non-current tangible assets)

Non-current tangible assets are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses, if any. Calculation of depreciation is started from the month following the month of putting the asset into operation using the straight-line method over the estimated useful life of the tangible asset. Estimated useful lives of key groups of tangible assets are as follows:

Groups of non-current tangible assets	**Useful life (in years)**
Vehicles	5–10
Office equipment	2–8
Other assets	4–6

In case non-current tangible assets comprise important components with different useful lives, they are carried as separate units of non-current tangible assets.

Subsequent repair costs are added to the carrying amount of non-current tangible assets if they prolong the useful life of the asset or improve its useful features. All other repairs and maintenance are charged to profit or loss in the period in which they are incurred.

The costs of repairs of assets that are leased and/or used under loan-for-use agreements are attributed to non-current tangible assets and recognized as expenses over the lease period, provided the repairs extend the useful life of the asset or improve its useful features.

The gain or loss arising on the disposal of an item of non-current tangible assets are determined as the difference between the sales proceeds and the carrying amount of the asset. Gain or loss from disposal of non-current tangible asset is recognized in profit or loss when incurred.

At the end of every year, the Company reviews the estimated useful life, carrying amount and depreciation method of the tangible assets and the changes in accounting estimates, if any, are recognized on a prospective basis.

Impairment losses, write-offs and depreciation expenses are allocated to operating expenses of the Company.

Investment property

Investment property constitutes real estate held in order to earn lease revenue and/or profit from property value increase, and is accounted for at fair value, and the depreciation thereof is not calculated. The fair value of investment property is reviewed at each reporting date, and any changes thereof are reflected in profit or loss.

Any repair works for the investment property reflected in financial statements at their fair value are recognized as costs of the period during which they were incurred.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase of revaluation reserve.

Financial instruments

Financial instruments are classified in one of the following categories

- at fair value through profit or loss
- available for sale
- investments held to maturity
- financial derivatives
- financial liabilities at amortised cost

Recognition and derecognition

Financial assets and liabilities are recognized when Gjensidige becomes a party to the instrument's contractual terms. Initial recognition is at fair value. For instruments that are not derivatives or measured at fair value through profit or loss, transaction expenses that are directly attributable to the acquisition or issuance of the financial asset or the financial liability, are included. Normally initial recognition will be equal to the transaction price. Subsequent to initial recognition the instruments are measured as described below.

Financial assets are derecognized when the contractual rights to cash flows from the financial asset expire, or when the Company transfers the financial asset in a transaction where all or practically all the risk and rewards related to ownership of the assets are transferred.

At fair value through profit or loss

Financial assets and liabilities are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. All financial assets and liabilities can be designated at fair value through profit or loss if

- the classification reduces a mismatch in measurement or recognition that would have arisen otherwise as a result of different rules for the measurement of assets and liabilities

- the financial assets are included in a portfolio that is measured and evaluated regularly at fair value

Gjensidige holds an investment portfolio that is designated at fair value at initial recognition, and that is managed and evaluated regularly at fair value. This is according to the Board of Directors' approved risk management and investment strategy, and information based on fair value is provided regularly to the Senior Group Management and the Board of Directors.
Transaction expenses are recognized in profit or loss when they incur. Financial assets at fair value through profit or loss are measured at fair value at the reporting date. Changes in fair value are recognized in profit or loss.
The category at fair value through profit or loss comprises the classes shares and similar interests and bonds and other fixed income assets.

Available for sale
Financial assets available for sale are non-derivative financial assets that have been recognized initially in this category, or are not recognized initially in any other category. Subsequent to initial recognition financial assets in this category are measured at fair value, and gain or loss is recognized in other comprehensive income except for impairment losses, which are recognized in profit or loss.
The Company has no financial assets in this category.

Investments held to maturity
Investments held to maturity are non-derivative financial assets with payments that are fixed or which can be determined in addition to a fixed maturity date, in which a business has intentions and ability to hold to maturity with the exception of

- those that the business designates as at fair value through profit or loss at initial recognition
- those that meet the definition of loans and receivables

Investments held to maturity are measured at amortised cost using the effective interest method, less any impairment losses. The category investments held to maturity comprises the class bonds held to maturity.

Loans and Receivables
Receivables are non-derivative financial assets with payments that are fixed or determinable. Receivables are measured at amortised cost using the effective interest method, less any impairment losses.
Interest-free loans are issued to finance fire alarm systems within agriculture for loss prevention purposes. These loans are repaid using the discount granted on the main policy when the alarm system is installed.
The category Receivables comprises , receivables related to direct operations and reinsurance, other receivables, prepaid expenses and earned, not received income and cash and cash equivalents and obligations classified as receivables.

Cash and cash equivalents
Cash comprises cash on hand and cash in banks. Cash equivalents are short-term (with a maturity less than three months from the date of acquisition) liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments in equities are not attributed to cash equivalents.

Deposits in credit institutions
All term deposits irrespective of the length of term are classified as term deposits in credit institutions (except for overnight deposits that are classified as cash at bank and on hand). Deposits in credit institutions are measured at amortised cost less impairment losses. Impairment loss is calculated as soon as it is determined that the deposit repayment is doubtful. Interest revenue is accrued applying the effective interest rate during the entire deposit term. The accrued deposit interest is stated together with the deposit's carrying value.

Financial liabilities at amortised cost
Financial liabilities are measured at amortised cost using the effective interest method. When the time horizon of the financial liability's due time is quite near in time the nominal interest rate is used when measuring amortised cost.
The category financial liabilities at amortised cost comprises the classes subordinated loan, deposits from and liabilities to customers, interest-bearing liabilities, other liabilities, liabilities related to direct insurance and accrued expenses and deferred income. Interest-bearing liabilities consist mainly of issued certificates and bonds, and buy-back of own issued bonds.

Definition of fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled to in an orderly transaction between market participants at the measurements date.

Different valuation techniques and methods are used to estimate fair value depending on the type of financial instruments and to which extent they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/liabilities is estimated based on valuation techniques which are based on non-observable market data.

Definition of amortised cost

Subsequent to initial recognition, investments held to maturity, loans and receivables and financial liabilities that are not measured at fair value are measured at amortised cost using the effective interest method. When calculating effective interest rate, future cash flows are estimated, and all contractual terms of the financial instrument are taken into consideration. Fees paid or received between the parties in the contract and transaction costs that are directly attributable to the transaction, are included as an integral component of determining the effective interest rate.

Impairment of financial assets

Investments held to maturity

For financial assets that are not measured at fair value, an assessment of whether there is objective evidence that there has been a reduction in the value of a financial asset or group of assets is made on each reporting date. Objective evidence might be information about credit report alerts, defaults, issuer or borrower suffering significant financial difficulties, bankruptcy or observable data indicating that there is a measurable reduction in future cash flows from a group of financial assets, even though the reduction cannot yet be linked to an individual asset.

An assessment is first made to whether objective evidence of impairment of financial assets that are individually significant exists. Financial assets that are not individually significant or that are assessed individually, but not impaired, are assessed in groups with respect to impairment. Assets with similar credit risk characteristics are grouped together.

If there is objective evidence that the asset is impaired, impairment loss are calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Available for sale

For financial assets available for sale, an assessment to whether the assets are impaired is carried out quarterly.

If a decline in fair value of an available-for-sale financial asset, compared to cost, is significant or has lasted longer than nine months, the cumulative loss, measured as the difference between the historical cost and current fair value, less impairment loss on that financial asset that previously has been recognized in profit or loss, is removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss are not reversed through profit or loss, but in other comprehensive income.

Share capital and reserves

Share capital and reserves are accounted for at the nominal value thereof.

<u>Legal reserve</u>

Pursuant to the Law on Companies of the Republic of Lithuania, legal reserve is formed from the distributable profit. Companies must transfer to the legal reserve 5% of their net profit, until the total amount of the reserve reaches 10% of the Company's share capital. The legal reserve may be used only for covering losses of the Company. The share of legal reserve in excess of 10% of the share capital may be distributed when distributing the profit for the succeeding financial year. It is not formed.

Revaluation reserve
Revaluation reserve represents increase in value of Company's non-current tangible assets (real estate) resulting from revaluation. Revaluation reserve is reduced in line with write-downs on assets previously revalued upwards, when assets revalued is written off, depreciated or disposed to the ownership of other persons. The revaluation reserve in respect of revaluation of tangible assets might be used to increase share capital. Revaluation reserve cannot be decreased to cover losses.

Technical provisions
Technical provisions are computed under IFRS EU with reference to the characteristics of the insurance risks assumed and the data available. The used assumptions are evaluated after prudent period of time since formation of provisions and may be subject to adjustment in case they are not reaffirmed.

a) The unearned premiums technical provision (hereinafter referred to as UPTP) is intended to cover insurance operating expenses according to all valid insurance risks. This provision is calculated as a part of premiums written attributable to income of the Company for future accounting periods. Unearned premiums technical provision is calculated separately for each insurance policy, proportionally allocating insurance premium written to the period of risk validity. For the calculation of unearned premiums technical provision the day method is used, when the period of insurance risk validity and the period of insurance risk validity until the end of policy is expressed in days.

b) Unexpired risk technical provision (hereinafter referred to as URTP) is calculated to cover the inadequacy of premiums by all valid insurance risks. The provision is calculated individually for every insurance group by subtracting from unearned premiums technical provision the forecasted claims according to the valid agreements, forecasted claims handling expenses related to these claims, deferred acquisition and administrative expenses and by adding the forecasted subrogation amounts to be recovered.

Forecasted claims are calculated as the product of the remaining annual risk assumed, annual risk frequency and average claim. The related forecasted claims handling expenses are calculated as a product of forecasted claims amount and the claims handling coefficient. The forecasted subrogation amounts are calculated as a product of forecasted claims amount and subrogation recovery coefficient. Annual claims frequency and the average claim are calculated individually for every insurance subgroup according to the statistics of the two-three last calendar years.

c) Outstanding claims technical provision (hereinafter referred to as OCTP) is intended to cover all outstanding claims, including amounts required for claims handling according to all claims already occurred as well as claims occurred but not reported, and excluding the outstanding amounts receivable from subrogation or regress rights and outstanding amounts receivable for realised residual assets. The calculation base of outstanding claims technical provision (excluding provision for occurred but not reported claims) represents the individual evaluation of every claim reported considering all available information at the moment of formation of this provision.

The estimate of claims incurred but not reported for all insurance groups with insufficient statistical data is calculated using the "Loss ratio" method and for the insurance groups with sufficient statistical data using the "Bornhuetter-Fergusson" or "Chain-Ladder" method.

Corporate income tax
Income tax expense comprises the expenses of the current income tax and deferred income tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2017 and 2016, the income tax applied to the Company is 15%.

Income tax rate of 15% applicable in Latvia is calculated based on the legislation effective in Latvia. Corporate income tax in Estonia is calculated based on the legislation effective in Estonia.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense in profit or loss, except when they relate to items credited or debited directly to Other comprehensive income (hereinafter referred to as OCI), in which case the tax is also recognized directly in OCI or if they emerged at the moment of initial recognition of a business combination.

Other provisions

Other provisions are recognized when the Company has a legal obligation as a result of the past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Employee benefits

Short-term employee benefits, including remuneration and social insurance contributions, bonuses and holiday pay, are included on an accrual basis into operating expenses over the entire employment period. Over the entire period of employment, the Company, on behalf of its employees, pays social insurance contributions to the State Social Insurance Fund Board; these contributions are made following local legal acts; the Company is not obligated to pay additional pension contributions for the years of service of its employees at the Company.

Classification of insurance contracts

(i) Recognition and measurement of insurance contracts

The insurance contract signed by the insurer is only recognised as an insurance contract if under such contract the policyholder transfers significant insurance risks to the insurer. All of the Company's insurance contracts are classified as insurance contracts and they do not include any items linked to investment units or other investment items.

The classification of insurance contracts is based on the transfer of insurance risk, for example:

- Personal accident insurance,
- Travel insurance,
- Property insurance against damage or theft,
- Vehicle insurance,
- Liability insurance.

(ii) Insurance premiums written and outward reinsurance premiums

Insurance premiums written comprise the premiums under the contracts signed during the accounting period which last for no longer than one year, the premiums under the contracts signed during the accounting period which last for more than one year and are allocated to one year of insurance, and the premiums under the contracts signed during the prior financial year which last for more than one year and allocated for the accounting year, deducting any premiums under cancelled or terminated insurance policies and considering the change of the doubtful premiums written. Earned premiums comprise the premiums attributable to the accounting period – premiums written during the year adjusted by change in unearned premiums reserve for the relative period.

Outward reinsurance premiums represent the share of premiums written in the accounting period, which was subject to reinsurance and adjusted by the change in unearned premiums technical provision.

Insurance claims

Insurance claims incurred comprise claims attributable to the accounting period, i.e. claims paid, claim handling costs, subtracting subrogation receivables and the outstanding claims technical provision change during the accounting period.

Subrogation received comprises the actually received amounts during the accounting period from third parties in cash or upon sale of transferred property, and the amounts receivable after the end of the accounting period which are related to the damages compensated prior to the end of the accounting period, taking into consideration the likely period of payment of such amounts and the likeliness of receipt of such amounts.

Amounts deducted from Motor Vehicle Third Party Liability insurance premiums written and paid to Motor Vehicle Insurers Bureau of the Republic of Lithuania are recognised as expenses during the period when related insurance premiums have been earned.

Motor Bureau fee calculated in Lithuania, Latvia and Estonia is accounted for as claims handling expenses.

Claims handling costs comprise the claims handling centre costs and certain portions of the costs incurred by the Company's headquarters and branch offices assigned in accordance with the methodology approved by the Company.
From administrative expenses to inderict claims handling expenses are reclassified by the approved instruction.

The reinsurers' share of the claims incurred comprises the amounts paid by reinsurers under reinsurance contracts or the amounts receivable from reinsurers for the claims payments made by the Company during the accounting period, adjusted by the outstanding claims technical provision reinsurers' share change during the accounting period, and the retrospective and external claims handling costs expenditure assigned to the reinsurers.

Investment activity income and expenses

All investment income and expenses related to insurance and equity capital investment operations are attributed to investment income and expenses.
Interest income is included in the statement of comprehensive income for all cash generating financial instruments using the effective interest rate method. Interest income includes coupon payments earned on fixed-income securities, interest earned on investments in bank deposits and loans, current account balances and discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Acquisition expenses

Acquisition expenses include expenses incurred concluding insurance contracts. Acquisition expenses represent commission payments to agents and intermediaries for the distribution of insurance policies, advertising and promotion expenses, operating expenses and employee payroll along with social security expenses of sales departments.
Commission expenses related to future periods are accounted for in the statement of financial position as deferred acquisition expenses. Deferred acquisition expenses are calculated on a pro-rata basis in respect of each insurance policy. The portion of commission expenses representing premiums unclaimed at the end of the reporting period are accounted for in the statement of financial position as accrued

commission charges. Accrued commission charges are calculated on a pro-rata basis in respect of each insurance policy.
Commission charges are allocated directly to each insurance policy and respective type of insurance, whereas other acquisition expenses are allocated to respective types of insurance based on the number of agreements signed.

Administrative expenses

Administrative expenses include expenses that are not directly related to insurance contract conclusion, claims handling, and investment activity. These expenses are assigned to insurance groups in accordance with the methodology approved by the Company.
From administrative expenses to inderict claims handling expenses are reclassified by the approved instruction.

Other income and expenses

Other income and respectively incurred expenses for the distribution of insurance products of other companies are reflected in other income and expenses right away, upon selling the relevant policy of another insurance company.
Other income includes income earned on services other than insurance services: interest not related to investments such as interest on cash in bank; income from foreign currency conversion and currency rate translation not related to investments; gain on revaluation of the items of the statement of financial position not related to investments, and other similar income not included in other items.
Other expenses include various expenses such as changes in foreign currency exchange rates of outstanding balances, loss on revaluation of the items of the statement of financial position not related to investments, fines and penalties for late payments and other expenses not included into other items.
All other income and expenses are recognised on an accrual basis.

Statement of cash flows

The cash flow statement is prepared applying the direct method. Cash and cash equivalents comprise cash on hand and at banks. The received dividends are assigned in the cash flow statement to investment activities, and the paid dividends – to financial activities. The received interest is shown in investment activity.

Offsetting

While preparing the financial statements assets and liabilities, and income and expenses are not offset, except cases, when an individual international financial reporting standard requires such offset.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company.

Regulatory requirements

The Company is subject to the regulatory requirements of the Bank of Lithuania. These requirements include minimum capital, minimum solvency, restricted investments, accounting and provision setting policies.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits are probable.

Events after the end of the reporting period

Events after the end of the reporting period that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

III. RISKS AND RISK MANAGEMENT

The Company's risk management is centralised at all Company's levels and includes the development, implementation and control of risk management activities related to the Company's goals. Given the level of competence and responsibility, risk management functions are distributed from the Company's Board to employees, defining them in the approved Company's Board's and the administration's work regulations, as well as in the job descriptions of employees.

The Company's risk management strategy is based on capital adequacy assessment principles, the aggregation of the types of risks faced into the overall assessment, and the assurance of solvency needs to cover them, in accordance with the principles of precaution, conservatism and prudence.

The main objectives of capital management strategy is to ensure continuous capital management and capital adequacy, timely response to the changes in capital size and assessment of the effect on capital of important decisions. The Company measures solvency capital requirement under Solvency II using a standard formula.

The Company, according to the requirements of the Solvency II Directive and overall risk management strategy of Gjensidige group, ensures the Company's risk management system on the implementation of the three level protection principle.

Risk is limited by the legislation regulating the operations of insurance companies and internal regulations, as well as by Solvency II Directive and its implementing documents. The Company's risk appetite and risk limits are approved by the Company's Board in order to determine the maximum level of the risk to be tolerated. When this limit is exceeded, the Company takes actions to prevent further increases in risks.

The Company applies risk management measures having assessed the significance of identified risks to achieving the Company's goals taking account of the costs and effectiveness of risk reduction measures:

1. Risk aversion – motivated decision not to take risky activities.
2. Risk mitigation – process whereby the Company applies internal controls to reduce the probability of the risk of the Company's processes and operations and/or their potential effect to the tolerated level.
3. Risk transfer – risk sharing/transfer to the third party.
4. Risk assuming – assuming of possible gains or losses from certain risks.

Detailed rules of management of specific risk types (identification, measurement, key indicators, monitoring, control, reporting and management measures) are set in the internal documents detailing the management of a specific risk type.

The Company considers insurance, market (investment), credit, concentration and operational risks significant and measures capital requirement. The Company assumes a different level of risk of each risk category and establishes risk assessment methodology individually for each risk category.

Capital risk management

The core function of insurance is the transfer of risk, and the Company is exposed to risk in both its insurance and investment operations. Identification, measurement and management of risk are essential parts of the operations. Risk and capital are, and must be interlinked. Any insurance company must adapt its risk exposure to its capital base. On the other hand, solvency capital, or equity, has a cost. A key objective of capital management is to balance these two aspects. Company's overall capital management objectives are firstly to ensure that the capitalization of the Company can sustain an adverse outcome without creating a financially distressed situation and secondly that the Company's capital is used in the most efficient way.

Insurance risks

The risk under any insurance contract is the probability that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and must therefore be estimated.
The Company operates in Lithuania, Latvia and Estonia. The core business of the Company is acceptance and management of insurance risks. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and/or severity of claims and benefits are

greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level calculated using statistical techniques.
Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.
Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its steering documents for insurance risk to diversify the types of insurance risks and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
The Company has an overall underwriting policy, approved by the Board, with more detailed underwriting guidelines for each of the product segments, supported by strictly defined authorisation rules. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

General insurance

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The different factors will depend on the products, or lines of business (LOB) considered.
An increase in the frequency of claims can be due to seasonal effects and more sustainable effects. During the winter season snow and cold weather will cause an increase in the frequency of claims in Motor insurance. In Property insurance cold winter will cause an increase in the frequency of claims due to frozen water pipes and increased use of electrical power and open fire places for heating of the houses. More permanent shifts in the level of frequency of claims may occur due to e.g. change of customer behaviour and new types of claims. The effect on the profitability of a permanent change in the level of the frequency of claims will be significant.
The severity of claims is affected by several factors. In some LOBs, with relatively few claims, the severity may be heavily influenced by large claims. The number of incurred large claims during a year varies significantly from one year to another. This is typically for the commercial market. In most LOBs the underlying development of the severity of claims is influenced by inflation.
Growth in severity of claims may be driven by the development of consumer price index (CPI), salary increases, social inflation and the price for material and services purchased with claims settlement. In Property insurance the inflation will consist of CPI and an increase in building costs, which in the past has been slightly higher than CPI. For accident and health the insurance policies are divided into two main groups, one with fixed sum insured and another part were the compensation is adjusted by CPI in health care sector.
The Company manages these risks mainly through close supervision of the development for each LOB, underwriting guidelines and proactive claims handling. The monthly supervision of the results for each LOB contains an overview of both premium and loss development. If there is an adverse development of the profitability, sufficient measures will be put in place. This includes necessary premium increases to ensure that the profitability is within the accepted level. The analysis of the profitability can be tracked further to different groups of customers and portfolios. The underwriting guidelines attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and location of the risks. Underwriting limits are in place to enforce appropriate risk selection criteria and to ensure that accepted risks are within the limits of the reinsurance contracts.

Premiums, deductibles and elements in the conditions may be changed at the yearly renewal of policies. Insurance companies have the right to reject the payment of a fraudulent claim. The Company has the right not to renew individual policies in cases of insurance fraud, and in some instances legislation or policy conditions give the Company the right to terminate or not to renew individual policies in cases where special reasons indicate that such termination is reasonable. In cases where a claim has been paid, the Company is entitled to pursue any third parties liable for the damage, for payment of some or all costs (recourse claim). The underwriting policy and guidelines are within the Company's approved risk appetite.
The claims handling procedures also include a clear strategy and routines for purchasing material and services in an optimal manner. The routines are to use purchase agreements to ensure the quality of our benefits to our customers and to reduce the inflation risk.

(i) Basic product features

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

Property insurance

This insurance covers losses incurred as a result of damage to the property of the insured if the cause is one of the following insured risks:
- Fire
- Natural disasters (storm, flood)
- Illegal activities of third parties

The risk inherent under property insurance is the rapid increase in prices for construction and renovation, as a result of which the policy holder may not be able to fully restore the property using the claim proceeds. This has an indirect impact on the relationship between the Company and policy holders.
Risk management is carried out by precisely defined assessment of the insured property to determine which property should be insured, which should be insured on special terms and which should not be accepted for insurance at all in line with the authority of the underwriter in the respective line of insurance.
In terms of loss adjustment, the Company is exposed to the risk of unfair actions on the part of policy holders. In order to reduce this risk the Company has set claim settlement administration limits for separate units and introduced high requirements for review of claim supporting documents.
The claim will usually be notified promptly and can be settled in the short term. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

The key risks associated with this product are underwriting risk and claims experience risk.
Underwriting risk is the risk that the Company does not charge premiums appropriate for the insurance contracts. The pricing processes for the different insurance products involve estimates of future frequency and severity of claims, based on statistics from internal and external sources. Even if the underwriting criteria are adequate and the premium calculations are performed on a good statistical basis, the claims cost may deviate from the expected level, due to large claims, natural catastrophes etc. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Motor own damage insurance (CASCO)

This insurance covers losses incurred as a result of damage to the vehicle if the cause is one of the following insured risks:
- road accident
- deeds of nature
- fire
- falling of various objects
- illegal activities of third parties
- theft and/or robbery
- glass insurance

Various extensions of cover are possible.

Insurance premiums are set in line with applicable insurance methodology. Motor vehicles are divided into four risk groups with different insurance premiums. Motor insurance usually contains a component of self borne risk.
The largest losses are incurred in the event of complete destruction and theft of the vehicle, but such cases are infrequent.
In order to prevent unfair dealing of policy holders, the Company performs detailed review of claim supporting documents, and ask competent institutions to perform additional investigation if necessary.
The claim will usually be notified promptly and can be settled in the short term. Casco is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

Motor compulsory third party liability (MTPL)

Motor compulsory third party liability insures the vehicle owner's or authorised user's liability for damages caused to third parties as a result of a road accident. The objective of this line of insurance is to protect the interests of third parties who have suffered in road accidents and this line of insurance is regulated by the laws on motor third party liability compulsory insurance that regulate the legal relationship between vehicle owners, authorised users and insurers in relation to the compulsory insurance of third party liability of the vehicle owners and authorised users.
In view of the risk of inflation which impacts the amount of claims paid, the Company performs tariff analyses for this line of insurance and the assessment of the impact on the financial ratios on a regular basis.
Even if statistics reflect that previous claims have been notified promptly and can be settled without undue delay, Motor third party liability insurance is classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

Health insurance

Health insurance is developing into a stable line of business. The Company's identified risk in this line of business is the weak health care system and the obscure government policy in this area as well as changes in economic environment.
The Company monitors and reacts to changes in prices for medical services, monitors the claim ratios on employer's bases and adjust prices accordingly each year when renewal takes place.
Health insurance is short-tail business with regular short-term reporting delays.

(ii) Concentration of insurance risks

The concentration of insurance risks is one of the key risk factors in insurance which may have an adverse impact on the Company's liabilities under insurance contracts. The concentration of insurance risks may be caused by the occurrence of a single insurance event involving large liabilities or a number of separate insurance events which results in significant liabilities for the company towards the policy holders.
Since insurance risks will never be totally independent from each other, then irrespective of the portfolio size there is always a so-called non-diversified risk when the insurer generally pays more claims than planned. Non-diversified risk is related to changes in the external environmental factors such as stages of the country economic development which have a systematic impact on the frequency and amount of claims in certain lines of business. For example, the increase of the inflation rate will increase the amounts of claims in the majority of the portfolio while government amendments relating to one of the type of the compulsory insurance may suddenly increase the insurer's liabilities.
The Company has two key methods in managing these risks.
First, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed (refer to *Insurance risk management*).
Second, the residual risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its liability and property business. Management reviews the reinsurance program at least on an annual basis and determines the required changes. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

Geographic and other type of concentration

The Company's insured risks are mainly located in Lithuania, Latvia and Estonia except for travel policies being effective only outside the residence country of the insured as well personal accident, CARGO, motor insurance policies covering insurance accidents in Baltics and abroad. The risk concentration in motor and property insurance is in the largest cities of Lithuania, Latvia and Estonia. The risk concentration in motor insurance is increasing due to the growing number of vehicles and traffic intensity, resulting in an indirect impact on claim amounts in this line of insurance. Insurance regulations and methodology determines the necessary risk assessment for property, claim amount limits and reinsurance regulations which ensure risk management in the respective insurance lines.

(iii) Potential impact of catastrophic events

A significant insurance risk that the Company believes is necessary to evaluate and include in insurance methodologies is the risk of nature or man-made catastrophes which creates the likelihood of the risk of large liabilities. The Baltic market is characterized by a low risk of catastrophes. The most common natural catastrophes are storms and storm ravage, flood and spring inundation. Storm and flood exposed territories include forests, sea shore lines and territories adjacent to rivers.

(iv) Potential impact of individual events

The biggest possible losses resulting from single events relate to motor third party liability insurance and property insurance. In order to limit possible losses resulting from single events the Company has bought non-proportional reinsurance cover.

Insurance risk management

(i) Underwriting policy

The management of insurance risks is performed by the Company by underwriting risks in accordance with policy. In accordance with the underwriting policy, each line of insurance has a set methodology and rules regulating the risk assessment methods to be applied, thus decreasing the likelihood of accepting liabilities with respect to risks that are in conflict with the Company's risk insurance policy and internal regulations.

The insurance methodology and rules define criteria and additional information for risk assessment by ensuring a systematic approach to risk assessment. As a result, the Company obtains consistent information in line with its requirements, for regular risk underwriting and introducing the required changes in the documents regulating risk underwriting.

The Company has set insurance limits based on operational experience, market requirements and risk assessment for each line of insurance.

Insurance tariffs are analysed and reviewed based on insurance events and claims paid on a regular basis, and changes are made to the tariffs using actuarial methods which help ensure the ability to meet liabilities. The reinsurance rules regulate the transfer of insurance risks to reinsurers. The Company's insurance type methodology and rules help insurance intermediaries and agents observe the Company's insurance guidelines on all insurance products offered on the Baltic market. The methodology for calculating technical reserves determines that appropriate reserves be created for incurred claims.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk employing a substantial degree of experience and judgement. The level of such provisions has been set on the basis of information which is currently available.

(ii) Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject to. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of corrections made during the prior years. The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to change in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past surpluses or deficits in respect to the balance of unpaid claims of the current period.

(iii) Liability adequacy test

The estimation of technical provisions for an insurance portfolio represents an approximation of future cash flow for the claims payments, and there will always be an element of uncertainty in such calculations. Provision risks relate to this kind of uncertainty. The uncertainty depends on the nature of the risk. Risk with a short duration is less exposed to changes that will affect the future payments. Inflation is an underlying risk in most insurance products. The effect will be different, depending on the characteristics of each product and the terms and conditions that apply for the claims settlement.

On each reporting date, the Company prepares a liability adequacy test by assessing whether the insurance liabilities recognized during the reporting year for valid policies are adequate by comparing the insurance provisions established to the present value of the estimated future cash flows arising on existing insurance policies.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve.

The test is performed on line of business basis in each country separately and test is applied to the gross amounts of provisions, i.e., the effect of reinsurance is not taken into account.

(iv) Sources of uncertainty in the estimation of future claims payments

The Company is liable for insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, and claims are paid according to the policy conditions valid at the time of occurrence. As a result, claims are settled over a long period of time, and there is an element of the claims provision that relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from the insurance contracts. These variables mainly relate to the characteristics of the different types of risks covered and the applied risk management procedures. The compensation paid is according to the terms specified in the insurance contract. Compensation for claims with respect of bodily injuries are calculated as the present value of lost earnings, rehabilitation expenses and other expenses that the injured party will incur as a result of the accident or disease.

The estimated cost of claims includes expenses to be incurred in settling claims, net of the expected recourse amount and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liabilities established. The liabilities in the financial statements related to these contracts comprise a provision for IBNR, a provision for reported claims not yet paid (RBNS) and a provision for unearned premiums and unexpired risks at the reporting date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified (RBNS), where information about the claim is available. There may be cases where certain claims may not be apparent to the insured until many years after the event that gave rise to the claims.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters, claims handlers and information about the costs of settling claims with similar characteristics in previous periods. All claims are assessed on a case-by-case basis by a claims handler. Claims with potential for distortive effects of their development are handled separately and projected to their ultimate by an additional provision. Where possible, the Company adopts multiple techniques to estimate the required level of provision. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Insurance contracts are often classified as risks that are short-tail and risks that are long-tail. Short-tail risk is characterized by that the period between the occurrences, reporting and final settlement of claims is short. Long-tail risk is the opposite; the period between the occurrence, reporting and settlement of claims is long. In Property and Motor hull insurance the claims are reported soon after occurrence, while bodily injury claims may be reported several years after the occurrence and settled several years after they were reported. The provisions for IBNR for short-tail risks are relatively small, while for long-tail risks the provisions for IBNR may constitute a substantial part of the total loss provision.

Financial risks and risk management

Financial risk is a collective term for various types of risk related to financial assets. The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, may be exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate, equity, property, currency, spread and concentration risk.
- *Counterparty (credit) risk:* loss arising from an issuer defaulting on its obligations or because of increased risk premiums for bonds with credit risk, and failure of a counterparty to meet contractual obligations;
- *Liquidity risk*: under certain adverse conditions, the insurer may be forced to sell *assets at a lo*wer price than their fair value in order to be able to settle liabilities.

Below is a description of each of these financial risks and a summary of methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of business.

Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios.

Market risks comprise:

- interest rate risk;
- foreign exchange risk;
- price risk;

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

i) Interest rate risk

Interest rate risk is defined as the loss in value resulting from a change in interest rates and is viewed both from the asset-only perspective and in relation to the interest-rate sensitivity of the liabilities.

Measures for management of the interest rate risk in the Company are centralized and based on the assessment of the impact of the interest rate risk on the Company's financial indices.

The Company does not have significant interest bearing liabilities and the largest share of interest bearing assets are at a fixed interest rate, therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest re-pricing profile of the Company's interest bearing assets and liabilities.

The overall exposure to interest rate risk is being reduced by matching a portfolio of fixed income instruments to the overall duration and the payout pattern of the insurance liabilities. Since the insurance liabilities are generally not discounted in the balance sheet, this implies that from an accounting perspective insurance liabilities will be exposed to changes in inflation (but not directly to interest rates). An economic perspective, however, argues for hedging interest rate risk, because the present value of the provisions will be exposed to changes in the real interest rate. From an accounting perspective, the risk from choosing this hedging strategy is reduced, because a major part of the bond portfolio is classified as held to maturity (hereafter only referred to as the amortized cost portfolio).

ii) *Foreign exchange risk*

The Company holds assets and liabilities denominated in foreign currency. Foreign exchange risk is the risk of financial losses resulting from fluctuations in foreign exchange.
Part of insurance risks is denominated in foreign currencies. Based on the Company's policies, foreign exchange risk is limited to known or expected transactions in foreign currencies. The management of foreign exchange risk is based on investments into respective currencies. Therefore, profit and loss are most sensitive to fluctuations in USD exchange rates which are considered insignificant. The Company is not engaged in any speculative transactions that may increase the foreign exchange risk.

iii) Price risk

Price risk refers to the risk of fluctuations in the value of financial instruments resulting from changes in market prices; the changes might impact the factors of an individual financial instrument or of all financial instruments traded on the market. The price risk occurs when the Company chooses a long-term or short-term position of a financial instrument.

Credit risk

Credit risk is the risk of losses or adverse changes in financial position resulting from changes in the standing of issuers of securities, business partners or debtors as a default of contrahents or increase in credit margin. The credit risk is managed by imposing loan restrictions on one entity, a group of entities, a sector or a country, by diversification of assets and the portfolio of financial instruments, by reinsurance of the financial insurance portfolio and other measures.

(i) Management of financial investments

To manage its credit risk, the Company mostly invests in markets and investments having high ratings.

ii) Insurance amounts receivable from direct insurance activities

Credit risk related to client balances due to failure to pay insurance premiums only exists in relation to payment schedule set in insurance certificate when the certificate is paid or terminated.

The rules and conditions for insurance cover are presented in insurance methodology.

(iii) Reinsurance

The Company acquires reinsurance in order to secure the Company's share capital; therefore, reinsurance is to be considered as a tool for both risk and capital management. The same models and methodology are used to analyse and acquire reinsurance as to the assessment of internal capital allocation based on risks.

In order to manage risks, the Company has approved the reinsurance programme which determines the reinsurance principles and the selection criteria of reinsurers. At least once a year the reinsurance programme is reviewed by the administration which also makes the necessary changes. The Company's reinsurance programme firstly comprises non-proportional reinsurance. The decisions on the reinsurance programme are taken based on the analysis of position, payments archive, possibility to implement the model and the Company's capitalisation. The Company cooperates with the leading reinsurance companies as well as its parent company Gjensidige Forsikring.

Concentration risk is the pooling of risks which might lead to losses threatening the Company's solvency and financial position, the possibility of major losses due to excessive positions exceeding the limits set by the Company. Concentration risk is considered a composite of main risk and as a separate risk category is managed within the main risk types (insurance, market and credit).

Liquidity risk is the risk that the Company will be unable to meet its financial obligations on time and/or that it may be forced to sell financial assets in order to fulfil its obligations and will suffer a loss due to a lack of liquidity in the market. In managing liquidity risk, the Company seeks to ensure the timely execution of the Company's financial liabilities and the effective use of liquid funds. For managing liquidity risk, the Company uses the cash flows method, which is reasoned by planning and forecasting the cash flows.

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems, technologies, employees' actions or external factors. Operational risk management is a continuous process for operational risk management, which is typical to all Company's products, operations, processes and systems, which are important to the Company, including such areas as transfer of essential or important Company's functions or operations to a service provider based on a contract, implementation of new product of service, and functioning of the Company's IT systems. The Company, managing its operational risk, considers both internal and external factors which might lead to operational risks. The Company's measures of operational risk management focus on the risk aversion, mitigation, transfer and/or assuming considering their effect on the achievement of the Company's goals, business continuity, considering the costs of risk mitigating measures and their effectiveness. The main goal of operational risk management is improvement of the Company's processes seeking to minimise the possible effect of operational risk to the tolerated level. The Company applies the following measures to mitigate the operational risk: implementation of control procedures, limitation of authorizations, four-eye principle, segregation of functions/duties, automation and other organisational and technical measures.

Operational risk events are registered in the IT system *Service Desk* when the Company's employee notices such an event.

The effectiveness of risk management system is regularly assessed by an independent Internal Audit Service, which performs an audit of the effectiveness of risk management system.

IV. EXPLANATORY NOTES

1. Property and equipment, Intangible assets

The movement of intangible assets, property and equipment for the period ended 31 March 2017, was:

Items	Intangible assets	Property	Other fixed assets	Total
Acquisition cost				
Balance as at 1 January 2016	*4 148 638*	1 833 593	*1 129 103*	*7 111 334*
Assets acquired	1 989 794	20 122	676 504	2 686 420
Bussines combination (note 14)	2 797 965	26 726	2 240 950	5 065 641
Assets disposed (-)	-	(120 862)	(278 228)	(399 090)
Balance as at 31 December 2016	*8 936 397*	*1 759 579*	*3 768 329*	*14 464 305*
Assets acquired	467 754	5 556	965 714	1 439 024
Assets disposed (-)	(20 068)	(93 018)	(352 373)	(465 459)
Balance as at 31 March 2017	*9 384 083*	*1 672 117*	*4 381 670*	*15 437 870*
Revalutaion				
Balance as at 1 January 2016		*(48 251)*		*(48 251)*
Bussines combination (note 14)		1 565		1 565
Decrease in value (-)		(3 032)		(3 032)
Change in revaluation result on disposals +/(-)		27 156		27 156
Balance as at 31 December 2016		*(22 562)*		*(22 562)*
Decrease in value (-)		(1 488)		(1 488)
Change in revaluation result on disposals +/(-)		11 180		11 180
Balance as at 31 March 2017		*(12 870)*		*(12 870)*
Accumulated depreciation				
Balance as at 1 January 2016	*3 088 513*	*568 593*	*695 453*	*4 352 559*
Charge of the year	728 547	35 164	299 146	1 062 857
Bussines combination (note14)	722 626	20 506	1 648 634	2 391 766
Reversals of depreciation after write-off (-)	-	(42 871)	(175 858)	(218 729)
Balance as at 31 December 2016	*4 539 686*	*581 392*	*2 467 375*	*7 588 453*
Charge of the year	415 333	7 069	155 891	578 293
Reversals of depreciation after write-off (-)	(92 015)	(30 498)	(275 825)	(398 338)
Balance as at 31 March 2017	*4 863 004*	*557 963*	*2 347 441*	*7 768 408*
Net book value				
Balance as at 1 January 2016	*1 060 125*	*1 216 749*	*433 650*	*2 710 524*
Balance as at 31 December 2016	*4 396 711*	*1 155 625*	*1 300 954*	*6 853 290*
Balance as at 31 March 2017	*4 521 079*	*1 101 284*	*2 034 229*	*7 656 592*

2. Securities and other fixed income securities at fair value through profit or loss

Euro	Fair value, 2017-03-31	Cost, 2017-03-31	Fair value, 2016-12-31	Cost, 2016-12-31
Securities and other fixed income securities at fair value through profit or loss	57 514 407	57 102 886	58 567 507	58 154 765
Total	**57 514 407**	**57 102 886**	**58 567 507**	**58 154 765**

All securities are attributed to Level 1 of fair value hierarchy except for Luxembourg funds which are attributed to Level 2.

Movement of assets for period ended 31 March 2017:

Items	Euro
Balance as at 31 December 2015	**3 807 887**
Assets acquired	42 526 743
Assets disposed	(3 308 839)
Increase/decrease Value	(526 867)
Business combination Note 14	16 068 583
Balance as at 31 December 2016	**58 567 507**
Assets acquired	4 719 068
Assets disposed	(5 816 082)
Increase/decrease Value	43 914
Balance as at 31 March 2017	**57 514 407**

3. Debt securities and other fixed-income securities classified as held-to-maturity

Euro	Amortised cost 2017-03-31	Fair value, 2017-03-31	Amortised cost, 2016-12-31	Fair value, 2016-12-31
Held to maturity	36 904 466	38 180 864	40 606 881	42 163 552
Total	**36 904 466**	**38 180 864**	**40 606 881**	**42 163 552**

All securities are attributed to Level 1 of fair value hierarchy except for Luxembourg funds which are attributed to Level 2.

Movement of assets for period ended 31 March 2017:

Items	Euro
Balance as at 31 December 2015	**39 186 219**
Assets acquired	10 956 500
Assets disposed	(35 733 008)
Increase/decrease Value	664 434
Business combination Note 14	25 532 736
Balance as at 31 December 2016	**40 606 881**
Assets acquired	**-**
Assets disposed	(4 103 609)
Increase/decrease Value	401 194
Balance as at 31 March 2017	**36 904 466**

4. Term deposits in credit institutions

Country	Carrying amount, 2017-03-31	Fair value, 2017-03-31	Carrying amount, 2016-12-31	Fair value, 2016-12-31
Lithuania	915 994	915 994	913 745	913 745
Latvia	5 262 751	5 262 751	14 271 532	14 271 532
Total	**6 178 745**	**6 178 745**	**15 185 277**	**15 185 277**

Movement of assets for period ended 31 March 2017:

Items	**Euro**
Balance as at 31 December 2015	**9 728 764**
Assets acquired	300 000
Assets disposed	(11 571 442)
Increase/decrease Value	16 826
Business combination Note 14	16 711 129
Balance as at 31 December 2016	**15 185 277**
Assets acquired	**-**
Assets disposed	(9 011 285)
Increase/decrease Value	4 753
Balance as at 31 March 2017	**6 178 745**

5. Receivable amounts

Receivable amounts	**2017-03-31**	**2016-12-31**
Receivables from insurance operations::	19 009 889	17 615 336
from policyholders	17.129.990	16 320 890
from intermediaries	1.879.899	1 294 446
Receivables from reinsurance operations:	183.739	163 428
from reinsurers	183.739	163 428
Other receivables	1.530.823	1 633 883
Total	**20 724 451**	**19 412 647**

6. Current accounts and cash on hand

Items	**2017 03 31**	**2016 12 31**
Current accounts and cash on hand	21 963 074	11 392 337
Total	**21 963 074**	**11 392 337**

As of 31 March 2017 and as of 31 December 2016, the Company had not term deposits with maturity less than 3 months.

7. Share capital and reserves

Share capital

As of 31 March 2017 the share capital of the Company amounted to EUR 47 184 339 (31 March 2016: EUR 13 001 174). The share capital of the Company is divided into 6 402 217 ordinary registered shares with the par value of EUR 7.37. All shares were fully paid as of 31 March 2017 and 2016.

	2017-03-31		**2016-03-31**	
	Amount	**Euro**	**Amount**	**Euro**
Ordinary shares with voting rights	6 402 217	47 184 339	1 764 067	13 001 174

Each share carries a right to vote at shareholder's meetings, a rights to receive dividends as declared from time to time and a right to residual assets.

	2017-03-31		**2016-03-31**	
Company's shareholders	Number of shares	% of share capital	Number of shares	% of share capital
ASA „Gjensidige Forsikring“	6 400 091	99,97	1 761 941	99,88
Private persons	2 126	0,03	2 126	0,12
Total	**6 402 217**	**100**	**1 764 067**	**100**

In March 2016, based on the decision of the General Shareholders Meeting, the share capital was increased by issuing 1 350 000 new ordinary registered shares with the nominal value of EUR 7.37 each. The amount of the increase is EUR 9 949 500.

On 31 October 2016, the authorised share capital was increased by exchanging 225 000 ordinary shares of Gjensidige Baltic AAS for 3 288 150 ordinary shares of Gjensidige ADB with the nominal value of EUR 7.37 each. The capital increased by EUR 24 233 665.

On 29 October 2015, based on the decision of the General Shareholders Meeting, the share capital was reduced to eliminate the losses recorded in the Company's balance sheet. The par value per share was reduced from EUR 28.96 to EUR 7.37.

According to the Law on Insurance of the Republic of Lithuania, the share capital of an insurance company should be not less than EUR 1 million. As of 31 December 2016 and 2015, the Company complied with this requirement.

Share premium

In 2014, after the increase of the Company's share capital by 860 000 shares, share premiums were formed, which comprise the amount of the par value surpluses of the issued shares. There were no changes in the amount of share premium in 2016.

Revaluation reserve

Revaluation reserve represents increase in value of Company's non-current tangible assets (real estate) resulting from revaluation. Revaluation reserve is reduced in line with write-downs on assets previously revalued upwards, when assets revalued is written off, depreciated or disposed to the ownership of other persons. The revaluation reserve in respect of revaluation of tangible assets might be used to increase share capital. Revaluation reserve cannot be decreased to cover losses.

8. Technical provisions

Technical provisions movements for period ended 31 March 2017:

Items	Unearned premium provision	Outstanding claims provision	Provision for unexpired risk	Total
Gross amount				
Balance as at 31 December 2015	*23 152 700*	*30 742 082*	*4 088 992*	*57 983 774*
Change over the period	8 024 338	(986 581)	1 258 123	8 295 880
Business combination(note 14)	21 325 890	27 769 850	-	49 095 740
Balance as at 31 December 2016	*52 502 928*	*57 525 351*	*5 347 115*	*115 375 394*
Change over the period	935 921	981 621	(626 867)	
Balance as at 31 March 2017	*53 438 849*	*58 506 972*	*4 720 249*	*116 666 070*
Reinsurance share				
Balance as at 31 December 2015	*(514 817)*	*(11 310 284)*	-	*(11 825 101)*
Change over the period	614 539	4 214 675	-	4 829 215
Business combination(note 14)	(611 134)	(3 213 541)	-	(3 824 675)
Balance as at 31 December 2016	*(511 412)*	*(10 309 150)*	-	*(10 820 562)*
Change over the period	(1 845 197)	(311 431)		(2 156 628)
Balance as at 31 March 2017	*(2 356 609)*	*(10 620 581)*		*(12 977 190)*
Net amount				
Balance as at 31 December 2016	*51 991 516*	*47 216 201*	*5 347 115*	*104 554 833*
Balance as at 31 March 2017	*51 082 240*	*47 886 391*	*4 720 249*	*103 688 880*

9. Other liabilities

Other liabilities as at 31 March 2017:

Items	**2017-03-31**	**2016-12-31**
Liabilities arising out from direct insurance operations:	8 278 671	7 720 956
Liabilities to policyholders	1 951 353	1 934 683
Liabilities to intermediaries	496 621	512 427
Other creditors arising out from direct insurance operations	5 830 697	5 273 846
Liabilities arising out from reinsurance operations	1 274 202	499 243
Liabilities to reinsurers	1 274 202	499 243
Taxes, social security contributions and other liabilities:	1 942 290	1 782 456
Taxes	218 585	167 556
social security contributions	552 560	473 465
Salaries	547 485	200 884
Other	623 660	940 551
Total	**11 495 163**	**10 002 655**

10. Results of non-life insurance activities

Country, where insurance agreement was concluded	Gross written premiums 2017	2016
Republic of Lithuania	18 056 616	12 195 638
Other EU countries	12 117 587	-
Other foreign countries		-
Total	**30 174 203**	**12 195 638**

11. Transactions with related parties

Related parties are defined as shareholder of the Company, members of the Board and Council, their close relatives and companies in which they have a significant influence or control.

The transactions with related parties during IQ 2017 and 2016 as follows:

Items	2017-03-31	2016-12-31
Reinsurance written premiums ASA „Gjensidige Forsikring“	2 694 769	2 638 579
Board members expenses and etc.	-	-

12. Compliance with legal regulations

At the reporting date, the Company complied with the legal requirements of the Republic of Lithuania that are applied to the insurance companies for investment structure.

As of 31 March 2017 and as of 31 December 2016, the Company complied with solvency requirements to insurance companies.

13. Contingencies and commitments

***Legal disputes* –** as of 31 March 2017 and as of 31 December 2016 the Company did not participate in any legal dispute cases that, in the opinion of the management, would have significant impact on the financial statements.

14. Business combination

Legal merger of Gjensidige Baltic AAS and Gjensidige ADB

On 27 June 2016, a decision regarding the reorganisation of Gjensidige Baltic AAS was taken; the rules of reorganisation of Gjensidige ADB and Gjensidige Baltic AAS have been prepared.

On 31 October 2016, the legal merger of Gjensidige ADB and Gjensidige Baltic AAS was completed.

Gjensidige ADB and Gjensidige Baltic AAS were reorganised by way of merger. Gjensidige Baltic AAS was merged to Gjensidige ADB and ceased its activities following the reorganisation.

The head office of Gjensidige in the Baltic States is in Lithuania.

All assets, rights and liabilities of Gjensidige Baltic AAS were transferred to Gjensidige ADB.

The transferred assets and liabilities of foreign branches as well as consideration received are presented below:

Assets taken over:	
Intangible assets	2 075 339
Investment	58 312 448
Amounts receivable	10 024 980
Bad debts reserve	(1 038 689)
Deferred income tax and income tax paid in advance	1 804 020
Cash at bank	5 526 973
Property and equipment	600 101
Other assets	53 884
Deferred acquisition expenses	2 942 961
Deffered commissions	2 053 606
Accrued income and deferred expenses	284 462
Total assets:	**82 642 085**
Liabilities taken over:	
Unearned premium technical reserve	21 325 890
Reinsurer’s share in technical reserves for unearned premium	(611 134)
Technical reserves for outstanding claims	27 769 850
Reinsurer’s share in technical reserves for outstanding claims	(3 213 541)
Other provisions	1 200 000
Other liabilities	6 119 648
Accrued expenses and deferred income	2 687 587
Total liabilities:	**55 278 300**
Transferred net assets	**27 363 785**

Transferred capital	**31 10 2016**
Share capital of AAS Gjensidige Baltic	31 950 000
Reserves AAS Gjensidige Baltic	841 014
Retained earnings carried forward from previous years	618 140
Profit (loss) of the reporting period	(6 045 369)
Total equity	**27 363 785**
Share capital increasing of ADB Gjensidige	24 233 666
Surplus of net assets	**3 130 119**

The companies were merged under the common control approach. This approach was based on the view that the business simply has been transferred from one part of the group to another. The assets and liabilities of the acquiree were recognised at their previous carrying amounts. No adjustments were made to reflect fair values and no new assets and liabilities of the acquiree were recognised at the date of the business combination. No new goodwill was recognised and the difference between the acquired net assets and the consideration was recognised directly in equity.

For the two months ended 31 December 2016, ADB Gjensidige contributed revenue of EUR 6 830 thousand and loss of EUR 3 099 thousand to the company's results. If the legal merge had occurred on 1 January 2016, management estimates that revenue would have been EUR 111 546 thousand, and result for the year would have been EUR 12 287 thousand loss. In determining these amounts, management has assumed that the assets and liabilities, that arose on the date of legal merge have been the same if the legal merge had occurred on 1 January 2016.

15. Events after the date of the statement of financial position

There were no events in the Company from 31 March 2017 until the date of issue of the financial statements that might have a significant impact on the financial statements.

Financial statements were signed on behalf of the Company's management on 25 April 2017.

General Manager	Marius Jundulas
Chief accountant	Jolanta Motukaitė
Chief actuary	Jurgis Navikas